

AR47

Payrock
Mines
LIMITED

ANNUAL REPORT

1973



RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

DIRECTORS

J. C. BYRNE, Toronto
President and Managing Director of Discovery Mines Limited
Managing Director, Avoca Mines Limited

C. M. EVANS, Toronto
Vice-President, Ashland Oil Canada Limited

H. BRODIE HICKS, Vancouver
Principal of Cannon-Hicks Associates Ltd.,
Geological and Mining Consultants

H. EARL JOUDRIE, Toronto
President and Chief Executive Officer, Ashland Oil Canada Limited

P. M. KAVANAGH, Toronto
President, Newmont Mining Corporation of Canada Limited

J. J. RANKIN, Toronto
President and Managing Director of Jorex Limited

W. J. WHELAN, Toronto
Administrative Vice-President, Ashland Oil Canada Limited

OFFICERS

J. C. BYRNE
President and Managing Director

D. R. McEWEN
Secretary-Treasurer

EXECUTIVE ENGINEER

L. A. BEDNARZ

SENIOR GEOLOGIST

T. ANTONIUK

EXECUTIVE OFFICE

Suite 1011, 2200 Yonge Street, Toronto, Canada

TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY, Toronto

BANKERS

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

AUDITORS

COOPERS & LYBRAND, Toronto

SOLICITORS

MUNGOVAN & MUNGOVAN, Toronto

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

Financial and Operating Highlights

For the Year Ended October 31, 1973

	1973 (\$000's)	1972 (\$000's)	Per Cent Change
Oil and Gas Sales	515	466	+ 11
Metal Sales	1,852	1,426	+ 30
Investment Income	301	182	+ 65
Mineral Exploration and Development Expenditures	931	239	+ 290
Income Taxes	24	—	
Net Earnings (loss)	(21)	225	
— Per Share	(\$0.00)	\$0.05	
Cash Flow	132	426	— 69
Working Capital	1,873	1,679	+ 12

Directors' Report to the Shareholders

Earnings from petroleum, mining and investments increased by sixty per cent during the past year. The production gains reflect higher crude oil and copper prices.

Net income before exploration expenditures and provision for income tax was \$934,388 or 21¢ per share. Two extensive underground exploration programs undertaken during the year together with other exploration costs and income tax provision resulted in a modest net loss of \$20,908.

Financially your Company's working capital strengthened during the year and investments appreciated in value. Having a major portion of its investments in South African and North American gold equities, Rayrock's portfolio has registered substantial gains since the fiscal year end, reflecting improved bullion prices. Listed securities held as at January 22, 1974 had a market value of \$4.5 million. Principal investment of your Company continues to be a 45 per cent equity in Discovery Mines Limited, which Company has a controlling interest in the Avoca Mines' copper operation in Ireland, and important exposure to several semi-developed gold prospects.

Crude oil price increases during 1973 aggregating 95 cents per barrel have improved the present worth value of remaining reserves in the three waterflood units operated by Rayrock and located in Southwestern Ontario. Since last September the Federal Government has instituted a general crude oil price freeze and export tax which have restricted the benefits of free market price to the producer. Increasing government resource involvement and regulations have created uncertainties in the industry.

The Icon Sullivan Joint Venture, in which a 23.75 per cent interest is owned, reported a 100 per cent profit increase although copper output declined 10 per cent. Subject to the discovery of new ore, remaining reserves at Icon will be depleted at the end of the 1974 calendar year.

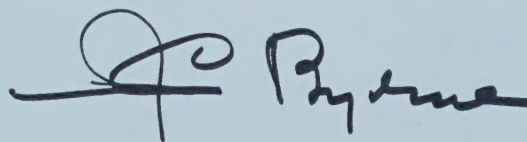
General mineral exploration was conducted primarily through three syndicate participations — Caltor, Cordex and Icon, the latter now in its 15th year of activity.

Increasing in economic importance are three low grade gold deposits in Nevada discovered by the Cordex Syndicate, financed 25 per cent by Rayrock Mines, Inc., a wholly-owned subsidiary of your Company. Preliminary economic studies and metallurgical investigations have been initiated with particular emphasis on the better grade occurrence containing 1.5 million tons averaging 0.18 ounces gold per ton. All deposits are amenable to open pit extraction.

Underground exploration programs were conducted, under working option agreements, on the Goldlund Mines gold property in Northern Ontario and on the Reco Silver Mines silver-lead-zinc prospect in the Slocan region of British Columbia. Extensive sampling at Goldlund returned grades substantially lower than those reported from underground work carried out some 20 years ago. Results of work completed to date do not indicate an economic operation at the current price of gold. At the Reco property encouragement was realized in the discovery of two potential oreshoots.

Rayrock anticipates further appreciation of its gold investments, and is currently investigating a number of semi-developed prospects including some long dormant gold properties.

On behalf of the Board,



Toronto, Ontario
January 29, 1974

President and Managing Director

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

Consolidated Balance

ASSETS

	<u>1973</u>	<u>1972</u>
Current assets		
Cash	\$ 127,043	\$ 117,410
Short-term deposits	1,200,000	1,200,000
Other short-term investments	53,345	3,049
Accounts receivable	184,634	110,599
Prepaid expenses	1,900	1,233
Interest in the current assets of the Icon Sullivan Joint Venture ...	447,939	290,516
	<u>2,014,861</u>	<u>1,722,807</u>
Investment in other companies (note 2)	<u>3,984,797</u>	<u>4,016,149</u>
Oil properties		
Petroleum and natural gas leases — at cost less accumulated depletion (1973 — \$570,805; 1972 — \$566,243)	508,243	562,982
Non-producing leases — at cost less amounts written off	23,515	53,978
Well equipment — at cost less accumulated depreciation (1973 — \$140,625; 1972 — \$136,100)	16,552	21,083
	<u>548,310</u>	<u>638,043</u>
Mining properties		
Mining claims — at cost	28,452	27,455
Interest in non-current assets of the Icon Sullivan Joint Venture ..	192,825	249,495
Interest in unexpended funds of mining exploration syndicates ...	10,186	48,478
	<u>231,463</u>	<u>325,428</u>
Other assets		
Head office furniture — at cost less accumulated depreciation (1973 — \$12,576; 1972 — \$10,687)	7,556	6,989
	<u>\$6,786,987</u>	<u>\$6,709,416</u>

Sheet — October 31, 1973

LIABILITIES

Current liabilities

	<u>1973</u>	<u>1972</u>
Accounts payable and accrued liabilities	\$ 118,137	\$ 43,658
Income taxes	24,000	—
	<u>142,137</u>	<u>43,658</u>

SHAREHOLDERS' EQUITY

Capital stock

Authorized — 5,000,000 shares of \$1 par value each		
Issued — 4,460,000 shares	4,460,000	4,460,000
Contributed surplus	619,318	619,318
Retained earnings	1,565,532	1,586,440
	<u>6,644,850</u>	<u>6,665,758</u>

Signed on behalf of the Board

J. C. BYRNE, Director.

H. EARL JOUDRIE, Director.

\$6,786,987

\$6,709,416

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

Consolidated Statement of Earnings

For the Year Ended October 31, 1973

	1973	1972
Crude oil and gas sales	\$ 515,127	\$ 465,646
Metal sales	1,852,380	1,425,798
Investment income	300,635	182,471
Total gross income	<u>\$2,668,142</u>	<u>\$2,073,915</u>
Operating profit from petroleum operations	\$ 276,642	\$ 255,947
Operating profit from mining operations	649,631	328,891
Investment income	300,635	182,471
Total operating profit before the expenses and write-offs detailed below	<u>1,226,908</u>	<u>767,309</u>
Deduct: Administrative and general expenses	99,940	84,052
Depreciation —		
Oil well equipment	4,525	6,257
Mining equipment	62,729	87,382
Amortization of oil leases	54,739	67,321
Oil lease costs written-off	30,463	40,462
Provincial mining tax	40,124	18,050
	<u>292,520</u>	<u>303,524</u>
Earnings before exploration expenditures and income taxes	<u>934,388</u>	<u>463,785</u>
Exploration expenditures		
Goldlund property — underground sampling and expenditures on buildings and structures	528,310	—
Reco property — exploration and development	161,529	—
Other mining exploration	241,457	238,825
	<u>931,296</u>	<u>238,825</u>
	3,092	224,960
Income taxes — current (note 3)	24,000	—
Net earnings (loss) for the year	<u>\$ (20,908)</u>	<u>\$ 224,960</u>
Per share information		
Earnings before exploration expenditures and income taxes	<u>\$ 0.21</u>	<u>\$ 0.10</u>
Exploration expenditures	<u>\$ 0.21</u>	<u>\$ 0.05</u>
Net earnings (loss) for the year	<u>(\$ 0.00)</u>	<u>\$ 0.05</u>

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

Consolidated Statement of Source and Use of Funds

For the Year Ended October 31, 1973

Source of funds	1973	1972
Current operations —		
Net earnings (loss) for the year	\$ (20,908)	\$ 224,960
Items not affecting working capital —		
Amortization of oil leases	54,739	67,321
Depreciation of equipment	67,254	93,639
Oil lease costs written off	30,463	40,463
	131,548	426,383
Decrease (increase) in investments	31,352	(330,231)
Decrease (increase) in unexpended funds of mining exploration syndicates	38,292	(38,136)
Decrease in sundry accounts receivable	—	5,000
	201,192	63,016
 Use of funds		
Share of cost of non-current assets of the Icon Sullivan Joint Venture	6,059	28,000
Acquisition of interest in mining claims	997	2,452
Other	561	3,954
	7,617	34,406
Increase in working capital	193,575	28,610
Working capital — beginning of year	1,679,149	1,650,539
Working capital — end of year	<u>\$1,872,724</u>	<u>\$1,679,149</u>

Consolidated Statement of Retained Earnings

For the Year Ended October 31, 1973

	1973	1972
Balance — beginning of year	\$1,586,440	\$1,361,480
Net earnings (loss) for the year	(20,908)	224,960
Balance — end of year	<u>\$1,565,532</u>	<u>\$1,586,440</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Rayrock Mines Limited and its subsidiary as at October 31, 1973 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of Rayrock Mines Limited included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who examined the financial statements of the subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1973 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
January 29, 1974.

COOPERS & LYBRAND,
Chartered Accountants.

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

Notes to Consolidated Financial Statements

For the Year Ended October 31, 1973

1. Principles of consolidation

The consolidated financial statements include:

- (a) the accounts of the wholly-owned subsidiary, Rayrock Mines, Inc. and
- (b) the company's proportionate share of gross revenue, operating profit from mining operations, depreciation and mining tax and therefore net earnings of the Icon Sullivan Joint Venture, as well as the company's proportionate investment in the current and non-current assets of the Venture.

2. Investment in other companies

	1973	1972
Discovery Mines Limited — at cost		
1,243,389 shares (quoted market value \$1,393,000)	\$1,963,223	\$ —
1,212,787 shares (quoted market value \$861,000)	—	1,939,699
Other listed shares — at cost		
(quoted market value 1973 — \$1,795,000; 1972 — \$1,623,000)	1,743,005	1,750,602
Other shares (unlisted or escrowed) and debentures — at cost less amounts written-off	278,569	325,848
	<u>\$3,984,797</u>	<u>\$4,016,149</u>

The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

3. Income taxes

For the year ended October 31, 1973, income subject to Canadian income tax is greater than the consolidated net earnings shown. Exploration expenditures of the U.S. subsidiary are included in the consolidated statement of earnings and are not deductible from income in determining Canadian income taxes.

No income taxes were payable for the year ended October 31, 1972 because expenditures of prior years were deductible in computing that year's income for income tax purposes.

Insofar as the financial statements relate to petroleum operations, the company, in common with many other companies in the oil and gas industry in Canada, does not follow the tax allocation method of accounting in respect of timing differences related to oil and gas intangibles. For income tax purposes the company in prior years claimed a deduction of \$331,000 in respect of oil lease acquisition costs, which is greater than the related depletion of \$137,000 provided in the accounts.

4. Remuneration to directors and senior officers

Directors and senior officers, as defined in the Business Corporations Act (Ontario), received direct remuneration as follows:

	1973	1972
Directors and senior officers	\$ 57,200	\$ 52,619
Senior employees (not officers or directors)	9,000	14,580
	<u>\$ 66,200</u>	<u>\$ 67,199</u>

5. Change of year-end

Commencing with the 1974 financial year the company will account for its long-term intercorporate investments, including the calculation of income therefrom, by the equity method to conform to the recommendations of Canadian Institute of Chartered Accountants. Accordingly, because of the company's substantial interest in Discovery Mines Limited, which has a December 31st financial year-end, the directors have passed a resolution to change the company's year-end from October 31st to December 31st so that the 1974 financial year will cover a period of fourteen months commencing November 1, 1973 and ending December 31, 1974.

MINE PRODUCTION

ICON SULLIVAN JOINT VENTURE

The 1973 fiscal year at the Icon Sullivan Joint Venture was characterized by higher profits, lower mine production and copper output, and greater unit operating costs than were experienced in 1972.

A total of 327,740 tons of run-of-mine ore was preconcentrated at the mine site and some 211,882 dry tons averaging 2.84 per cent copper were milled at the Canadian Merrill concentrator located near Chibougamau. Total copper contained in concentrate was 11,680,000 pounds compared to the previous year's production of 12,890,000 pounds. Concentrate grade averaged 26 per cent and mill recovery 97 per cent.

The average price received for copper during the twelve months ended October 31, 1973 was 59.0 cents per pound which contrasts with 48.4 cents for the previous comparable period. Better than three-quarters of the copper was marketed at North American producer price levels and the balance at LME settlements.

Operating costs including ore haulage of 44 miles was equal to \$10.80 per ton of mine ore preconcentrated in the past fiscal year.

Subject to the discovery of new ore, remaining known and recoverable reserves at Icon will be depleted at the end of the 1974 calendar year. A total of 22,400 feet of exploration drilling was conducted in 1973 to test several geological targets; results were negative. However, a modest tonnage of good grade ore representing better than one month's copper production was discovered and extracted by open pit methods. A limited geochemical survey has been completed to guide followup investigation for possible extension of values.

Rayrock's interest in the Icon Sullivan Joint Venture is 23.75 per cent. The other participants are Newmont Mining Corporation of Canada, Kerr Addison Mines, Gunnex Limited (a wholly-owned subsidiary of Barymin Explorations), and Troop Exploration and Development. The Joint Venture Project Manager is Mr. J. N. Botsford.

PETROLEUM PRODUCTION

Rayrock's oil and gas revenue of \$515,127 and operating profit of \$276,642 were each slightly higher than the 1972 results. A reduction in crude oil production for Rayrock's account, from 145,000 barrels to 126,584 barrels, together with higher operating expenditures, were more than offset by increases in crude prices which advanced by a total of 95 cents per barrel during the fiscal period. The most recent increase of 40 cents occurred last August.

Your Company operates three oil producing units in southwestern Ontario — a wholly owned parcel in the Rodney Field, a 40 per cent interest in the R & R Unit of the same field, and a 10 per cent equity in the Gobles Field. A production summary for 1973 is presented as follows —

	Wholly- owned	R & R Unit	Gobles
Total Crude Production — bbls.	99,996	52,845	54,506
Net to Rayrock — bbls.	99,996	21,138	5,450

Current productivity of the three waterflood units is 560 barrels of crude oil per day.

Field performances during 1973 were satisfactory except at Gobles where output was adversely affected by paraffin accumulations in several of the recovery wells. Corrective measures and improved stimulation have stabilized production.

Rayrock's Ontario Petroleum Division is managed by A. E. MacKay Petroleum Limited, Clarkson, Ontario.

An interest of long standing in the Redwater oil field of Alberta yielded income of \$31,503 compared to \$17,165 in 1972.

MINERAL EXPLORATION

ICON SYNDICATE

The 1973 efforts of the Icon Syndicate were largely directed toward an airborne geophysical survey and ground followup of a region in North-western Ontario. Selective examination of anomalies by drilling and soil sampling is incomplete and will continue in 1974.

On claims located near the Icon Sullivan copper mine the Syndicate conducted a geochemical survey, and a program of drilling has been proposed.

On an optioned base metal prospect in the Val d'Or district a strong conductive zone was drilled and trenched to disclose non-economic mineralization.

It is noteworthy that the Icon Syndicate has just completed its fourteenth year of exploration activity under the direction of its Manager, Mr. A. J. Troop. Rayrock has been associated with Icon since its inception in 1960 and has provided 25 per cent of the Syndicate's annual budget.

CORDEX SYNDICATE

Three low grade gold discoveries of economic importance can be attributed to the efforts of the Cordex Syndicate since its organization in 1970. Preliminary economic studies have been undertaken to investigate comparative capital and operating costs relating to a conventional gold cyanidation treatment plant and an alternative ore leaching and recovery method. Fill in drilling was initiated during 1973 on the higher grade of the three deposits which are located within a radius of 13 miles in a readily accessible region of north-

ern Nevada. Calculated reserves on what is known as the Pinson A orebody and recoverable by open pit mining are 1.5 million tons averaging 0.18 ounces gold per ton after an allowance for dilution; overall waste to ore stripping ratio is about 7 to 1. Drill indicated reserves of the other two gold occurrences are 1.0 million tons of 0.1 ounce per ton and 1.2 million tons averaging 0.08, both amenable to surface extraction. Metallurgical investigation on representative ore samples from the Pinson A deposit is in progress.

In addition to general property examinations in a number of the southwestern states, the Cordex Syndicate in 1973 conducted several major exploration programs in Nevada with particular emphasis on gold and silver prospects having open pit potential; this philosophy will continue into 1974 and 1975.

The Syndicate is currently involved in two joint ventures, one with Union Oil Company on a copper porphyry bet, and the other with Molybdenum Corporation of America on a copper-molybdenum prospect. Drilling is planned for both properties which are located in Nevada.

Rayrock Mines Inc. has been contributing 25 per cent of the exploration funds for the Syndicate. Supervising the field work is Mr. J. S. Livermore.

CALTOR SYNDICATE

The Caltor Syndicate financed two regional prospecting and geochemical programs in southwestern British Columbia during 1973, its fourth year of exploration. Areas selected were near Pemberton and Revelstoke. A lead-zinc occur-

rence was drilled to yield mineralization lensy in nature.

A geochemical survey was conducted on optioned claims located adjacent to the Northair Mines' gold-silver discovery, 70 miles north of Vancouver. No additional work is contemplated at this time.

The Thunder Bay district project launched in 1971 as an airborne and ground followup effort was completed during the past year. Drilling of the prominent anomalies disclosed only trace amounts of copper and zinc mineralization.

Funds for Caltor are provided equally by Ashland Oil Canada and Rayrock. Manager of the Syndicate is Mr. T. Antoniuk.

GOLDLUND MINES PROJECT

Early in 1973 Rayrock concluded a working option agreement with Newlund Mines Limited, since re-organized on a two for five basis into Goldlund Mines Limited. The gold prospect of Goldlund is situated near Sioux Lookout in North-western Ontario.

Approximately \$620,000 was expended during the calendar year on a program which included rehabilitation of existing buildings, erection of a new headframe and assay office, installation of a mining and bulk sampling plant, partial dewatering of the mine workings, and an underground program of selective development and sampling together with diamond drilling. Rayrock's examination was confined to the first two of four existing

levels in the mine and all mining was conducted on the uppermost level at 200 feet. Some 3,870 tons were extracted from drift sections, crosscuts and inclined raises, covering a strike length of 2,900 feet of the gold-bearing dyke. This tonnage was bulk sampled and returned an average grade of 0.084 ounces gold per ton. Comparative muck and chip sampling results closely confirmed the bulk assay averages. Grade determination is difficult due to the erratic nature of the gold distribution and it is for this reason a bulk sampling approach was adopted.

A total of 5,000 feet of diamond drilling was undertaken on the 200 and 350 foot levels and was designed to cross-section the granodiorite dyke at regular intervals. Purpose of the drill investigation was to ascertain whether the gold distribution and related quartz veining favoured a certain portion of the host rock.

Objective of the property evaluation was to delineate sufficient low grade reserves to support a large, relatively low cost operation favouring a minimum of mining selectivity. Results of work completed to date by Rayrock do not indicate an economic operation at the current gold price of \$135 to \$140.

Previous work on the Goldlund property over 20 years ago comprised the sinking of a vertical shaft to 825 feet, some 15,000 feet of lateral development on four levels, and over 20,000 feet of underground drilling. In addition, surface drilling was conducted on two other gold-bearing granodiorite dykes and encouraging assays were reported. Grades reported at that time from underground work on the first two levels were sub-

RAYROCK MINES LIMITED

AND ITS SUBSIDIARY

stantially higher than grades obtained by Rayrock from four sampling methods.

RECO SILVER MINES PROJECT

Underground and surface exploration was initiated in June on the optioned silver-lead-zinc prospect of Reco Silver Mines located in the Slocan district of southern British Columbia. Some \$170,000 was expended by Rayrock on a program which included geochemical surveys, trenching, 1,000 feet of underground development, and 2,300 feet of surface diamond drilling.

Two potential oreshoots were disclosed by drifting, one of which yielded 11.1 per cent combined lead-zinc and 2.2 ounces silver per ton over an average vein width of 4.8 feet and a length of 64 feet; and the other 18.3 per cent lead-zinc and 1.0 ounces silver over an average width of 4.5 feet and a drift length of 77 feet. Results in both cases represent face chip sampling. Further work including slashing of the drift walls in the first mentioned shoot indicated a total length of 109 feet and widths of 5 to 6 feet. Back sampling at 5 foot intervals is scheduled. Reserve estimates are not possible since the vertical dimension of the shoots has not as yet been defined.

The soil geochemical work disclosed extensions to known mineralized structures and also indicated new targets for followup exploration.

The Reco project has been suspended until after the winter season when access and working

conditions become easier. A program similar to that conducted in 1973 is envisaged.

Under the terms of the working option agreement Rayrock may, after the expenditure of \$155,000, earn a 60 per cent working interest in the Reco property by taking it to commercial production, if warranted. In addition, Rayrock earns an important equity interest in Reco based on the amount spent by Rayrock on the claims.

GENERAL

Rayrock contributed 25 per cent of the funds to support a joint exploration venture with International Mogul Mines on a group of 81 staked claims and 36 optioned claims located in Mann and Newmarket Townships, Porcupine Mining Division. Following a program of detailed geophysics, geological mapping, and geochemical investigations, diamond drilling of the prominent conductors was initiated. Eleven anomalies were tested of which some were explained by minor copper and nickel bearing sulphides while others were attributable to conductive overburden, shear and fault zones.

* * * * *

Rayrock financed a one-third interest in a grubstake that conducted numerous property examinations in Mexico, Nevada, Utah and Idaho. In that none of the mineral descriptions appeared to warrant serious followup, the grubstake was terminated after one year.

